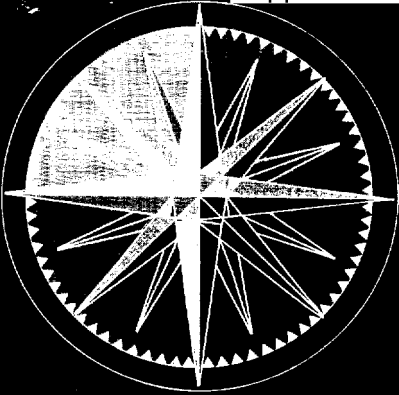


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SPECIAL REPORT

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

State Dept. review completed.

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT*

The UN Conference on Trade and Development, which will be in session at Geneva from 23 March to 15 June, will spotlight the economic grievances of the Afro-Asian and Latin American countries against the United States and other industrialized nations. Representatives of 122 nations and of the specialized agencies of the United Nations will attend. In large part because there are so many protagonists, each with its own goals and demands, there appears to be little prospect for much in the way of an immediate achievement.

In general, the participants will group into a triangular array--the developed countries of the West, the Soviet bloc, and the less developed countries (LDCs). The objective of the LDCs will be to get commitments from the richer countries to buy more from the poorer ones and to pay more for what they buy. The strategy of the Communist countries will be to abet the LDC effort in order to discredit Western trade practices. The West will try to rebuff unreasonable demands without deepening Afro-Asian and Latin American antagonisms and thereby broadening the field for Communist mischief.

LDC Objectives

The US and other Western nations were unresponsive at first to suggestions for a conference that might become a sounding board for such catch phrases as "economic imperialism." As the conference idea gathered increasing support in the UN, however, opposition became inexpedient. The General Assembly's designation of the 1960s as the "Development Decade" engendered high hopes among many members, and the conference seemed a necessary step in lending substance to this ideal. Beyond the considerations of practical pol-

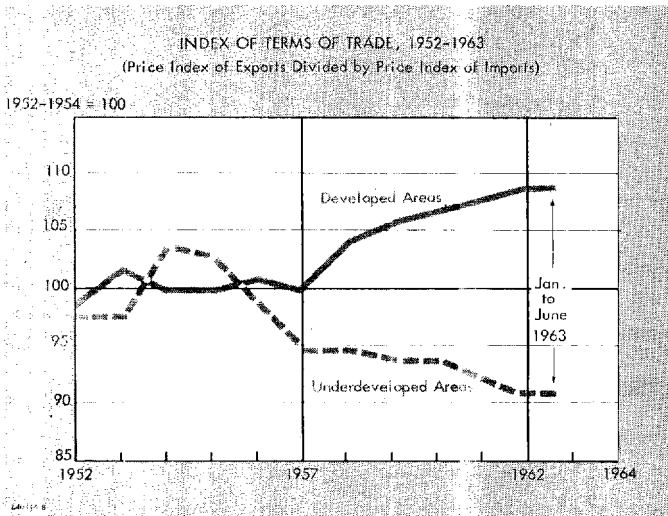
itics, there was general assent that the LDCs suffered from certain economic disabilities that deserved serious study. The General Assembly resolution calling for the conference was adopted in December 1962 by overwhelming majority.

The basic grievance of the LDCs is the alleged "gap"--the difference, according to their brief, between the amounts needed for their economic development and the resources available to them from present levels of trade and aid. Foreign exchange receipts are simply

*Prepared jointly by OCI and ORR.

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insufficient to finance the imports necessary for economic development.

Part of the foreign exchange receipts of the LDCs--eight or nine billion dollars a year--comes from the flow of foreign aid and private investment. The more important part--earnings from exports--runs three times as high. However, the prices of commodities exported from the LDCs have tended to fall in recent years, while prices of imported manufactures have gone up. This deterioration in their terms of trade (ratio of export prices to import prices) is resentfully regarded by the LDCs as a factor that cancels out the benefit of foreign aid and keeps them in their hopeless economic rut. (See chart).

The case will be set forth by the LDCs at the conference to justify their recrimination

against such foreign trade barriers as tariffs on LDC manufactures and excise levies by West European countries on certain commodities like coffee. The LDCs, however, are looking to measures that go far beyond the lowering of such trade barriers. What they want, in fact, is not so much a freer market as assured earnings. They will press accordingly for international commodity agreements and for measures for "compensatory financing" to offset losses resulting from adverse movements in their terms of trade.

The International Monetary Fund already makes some provision for credits to cover temporary shortfalls in export earnings. The LDCs will propose assistance that goes beyond this to incorporate features of grant aid along with credit aid. They will propose further that these features work not merely to smooth out fluctuations in earnings, but also to subsidize the LDCs in the event of longer term declines in the prices of their exports.

LDC Differences

Despite the common interests of the LDCs, the conference will probably also highlight their differences. Some of the African states already enjoy associate status and hence preferential markets in the European Economic Community. Others in Africa and Asia enjoy Commonwealth preference in British markets. These special preferences to certain LDCs are

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resented by the Latin American states, which are threatened with the loss of their European markets.

Differences of views will also derive from the fact that the larger and more developed of the LDCs anxiously seek markets for their new industries. The smaller and weaker LDCs have eyes mostly for improvements in commodity markets.

These differences have been reflected in the prodigious pulling and hauling at pre-conference caucuses in search of a common platform. All agree that their individual difficulties are the fault of the industrial nations, but none is able to develop a program which does not prejudice another's current advantage and at the same time is acceptable to the industrial nations.

The Communist Strategy

The LDCs will apply maximum pressure against the West --not because they lack grievances against the bloc, but rather because their economic prospects still depend in the main on Western markets. In spite of substantial increases in recent years in LDC trade with the bloc, the Communist countries still take only about 5 percent of total LDC exports. Although the LDCs want to increase this percentage, they realize that the preponderance of Communist imports will continue to be made up of heavy machinery equipment from the economically developed countries.

With the industrial West thus the major target for LDC pressures, the Communist countries see the conference as an excellent opportunity for contributing to Western discomfiture and gaining Soviet advantage in the cold war.

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MAJOR AGENDA ITEMS OF THE UN CONFERENCE
ON TRADE AND DEVELOPMENT

- I. Expansion of international trade and its significance for economic development
- II. International commodity problems
- III. Trade in manufactures and semimanufactures
- IV. Improvement of the invisible trade of developing countries
- V. Implications of regional economic groupings
- VI. Financing for an expansion of international trade
- VII. Institutional arrangements, methods, and machinery to implement measures relating to the expansion of international trade

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Despite the limitations of the Communist market for LDC exports, Communist countries will dwell on the alleged advantages of expanded trade with the bloc. Cuba, for example, will point to its long-term trade agreement to sell sugar at a fixed price to the USSR. Castro last January extolled this agreement for its "encouraging aspect to all underdeveloped nations." The Communists will assert that the LDCs can have more stable earnings by selling under such agreements than by selling at the fluctuating prices of the world market.

This line will probably have little appeal other than the political bargaining leverage it gives the LDCs. The experience of most of these countries is that trade with the Communist countries is not nearly so advantageous as trade with the West. Substantial contracts go unfulfilled, and the LDCs are frequently left financing large credit balances from which no acceptable imports can be obtained. There is little en-

thusiasm for receiving payment in nontransferable rubles when there are possibilities for selling in free world markets and getting paid in convertible currencies.

Western Attitudes

Although many of the industrial nations may be receptive to the idea of promoting the stability of LDC export earnings, these nations will take exception to arrangements that expose them to unacceptable risks--e.g., overproduction of primary commodities by the LDCs and misallocation of compensatory funds paid to the LDCs. The safeguards that these industrial nations will propose include export quotas and production controls on primary commodities, joint participation in the determination of the "parity" relationship between primary products and manufactures, joint participation in the allocation of compensatory payments among the LDCs, and joint planning of the LDC investment projects destined to receive these funds. Many LDCs, on the other hand, will object to these safeguards as politically offensive to their sovereignty.

On the subject of LDC exports of manufactured goods, the major difficulty is that, aside from textiles and food products, these manufactures are not competitive in world markets. Protected by high tariffs, they command a limited market at home

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and occasionally in neighboring countries of the region. There may be agreement at the conference to enlarge these limited advantages, with a general consensus that the LDCs need not reciprocate some of the tariff concessions made by the industrial countries. The economically developed countries may also acquiesce in tariff cuts applying only to intra-LDC trade, rather than insist on the impartial extension of such tariff reductions according to the customary most-favored-nation principle.

In general, the economically advanced countries of the West will stand together, but there will be occasional disharmony in the ranks. On the issue of tariff preferences to the LDCs, for example: the European Common Market countries are in favor; Japan is also inclined to go along on many items; the UK, Canada, and others are open-minded; but the US, preferring a trade system based on the most-favored-nation principle, has some reservations.

This subject of tariff preferences has been discussed for a long time in GATT working groups, and the line-up is fairly clear to the Asians, Africans, and Latin Americans. They obviously regard the US as the main roadblock to obtaining all their desired preferences, and they are hopeful of being able to isolate the US on this issue at the conference.

France may be a special problem. The French seem to be

viewing the conference as another opportunity to accentuate the appeal of De Gaulle's "independent" foreign policy to the neutralist-minded countries of the underdeveloped areas. In working group sessions of the Organization of Economic Cooperation and Development (OECD), the French stood aloof from efforts to work out joint Western positions on the issues to be debated at the UN conference. Instead they drafted their own aide-memoire for circulation to UN members. In a play to the LDC gallery, the aide-memoire disparaged free competition, called for an "organization of markets" that would stabilize LDC export earnings, and proposed scrapping the most-favored-nation principle for trade involving the LDCs.

The Institutional Issue

The conference will be the scene of another effort to establish a world trade organization, sought on several occasions since the end of World War II. GATT has never pretended to be such an organization. It is rather a multilateral treaty arrangement to promote the reciprocal reduction of trade barriers, an ideal which the LDCs consider incompatible in many respects with their national interests at this stage of their economic development.

New states seek protective tariffs for their budding industry, preferential markets for their primary commodity exports, and nonreciprocal access to the

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markets of the developed countries for such industrial exports as can be developed in the next several years. Unable to secure these terms in GATT, the LDCs hope through their numerical preponderance at the UN conference to legislate general support for their trade objectives. They want to institutionalize these objectives in a permanent organization that is something more than a new chapter in GATT or a mere re juggling of the present plethora of committees, commissions, and groups within the United Nations.

[redacted] the Soviet Union also favors the creation of a new international trade organization to apply pressure on the West to break with its traditional trade practices.

Dr. Raul Prebisch, the Argentine economist and UN official who will serve as secretary general of the conference, has formulated a proposal for a Permanent Conference on Trade and Development within the United Nation's framework. The conference would meet periodically, and a standing committee and small secretariat would function between sessions.

The Prebisch proposals are sufficiently loose in form to offer some hope for general

agreement. The committee structure as outlined would accommodate without impairing existing trading arrangements like GATT or the bloc's Council for Mutual Economic Assistance (CEMA). There will be opportunities at the conference for modification of the Prebisch proposals to make them still more innocuous.

On the institutional as on other issues, the limited achievements likely to come out of the conference will hardly satisfy the many LDCs that hope for so much more; some of their more extravagant statements have characterized the conference as the most important event since the UN charter was adopted. Actually, it will probably constitute more a forum for presenting points of views rather than for reaching specific agreements. Most of the controversial issues will be referred to appropriate committees for "further study." The result may afford the LDCs some hope that the conference is a forerunner of further developments in their favor. In the main, however, they will leave Geneva disappointed that their immediate gains were not more impressive.

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